

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Alternative Investments  
Activity Status Report

ITEM NUMBER: 11

ATTACHMENT(S): 4

ACTION: \_\_\_\_\_

DATE OF MEETING: February 3, 1999

INFORMATION: X

PRESENTER(S): Mr. Desrochers

The table below contains Alternative Investment activity for the month of December 1998 and historical information for selected time periods.

	Month Ended 12/31/98	Fiscal Year To Date	Past One Year	Past Three Years	Inception To Date
<b>Commitments:</b>					
Partnerships	90,000,000	162,000,000	1,347,000,000	2,472,722,000	4,471,480,691
Co-Investments	0	0	0	47,000,000	47,000,000
<b>Contributions:</b>					
Partnerships	37,682,059	317,815,987	618,226,839	1,405,353,138	2,272,896,936
Co-Investments	0	0	0	47,000,000	47,000,000
<b>Distributions:</b>					
Cash	71,028,281	135,458,581	374,360,687	882,236,485	1,092,362,131
Stock	1,519,619	28,330,929	71,364,482	313,498,315	421,660,681
<b>Stock Sales</b>	<b>15,390,933</b>	<b>39,064,011</b>	<b>66,308,088</b>	<b>260,654,340</b>	<b>364,619,155</b>

On January 13, 1999, the Investment Committee approved a \$250 million commitment to Cypress Merchant Banking Partners II, L.P., subject to negotiation of acceptable terms and legal review. The Cypress strategy focuses on growth platform investments with a specific emphasis on companies in the media and entertainment, healthcare, telecommunications, distribution, and information services sectors.

Attachment 1 contains a summary of partnership commitments and capital accounts from the inception of the Alternative Investment program through December 31, 1998.

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Attachment 2 contains an executive summary of action taken under delegation of authority for a \$65 million commitment to Spectrum Equity Investors III.

Attachment 3 contains an executive summary of action taken under delegation of authority for a \$25 million commitment to MC Venture Partners.

Attachment 4 contains an executive summary of action taken under delegation of authority for an investment of up to \$41,555,964 to purchase a secondary interest in Blackstone Capital Partners II.

STRS ALTERNATIVE INVESTMENTS										
PARTNERSHIP COMMITMENTS AND CAPITAL SUMMARIES										
DECEMBER 1998										
	Partnerships	Type	Date STRS	Closing	Fund	STRS	Amount	Returned	Net Invested	Income &
			Approved	Date	Size	Commitment	Funded	Capital	Capital	Gain
1	Alpine Technology Partners	VC	Sep-94	Dec-8-94	60,000,000	60,000,000	36,000,000	1,257,680	34,742,320	1,927,015
2	Alta V	VC	Apr-92	May-27-92	159,470,000	20,000,000	20,000,000	6,269,040	13,730,960	23,371,027
3	Alta Communications VI	SS	Apr-96	May-09-96	161,200,000	20,000,000	19,000,000	0	19,000,000	0
4	Alta Communications VII	SS	Jun-98	July-09-98	271,490,000	30,000,000	6,000,000	0	6,000,000	0
5	Austin Ventures V	VC	Jan-97	Jan-16-97	170,000,000	15,000,000	8,117,647	0	8,117,647	0
6	Austin Ventures VI	VC	Nov-98	Nov-24-98	320,000,000	22,000,000	1,878,234	0	1,878,234	0
7	Bank Fund III	SS	Jan-93	Jan-22-93	125,000,000	10,000,000	10,000,000	0	10,000,000	6,044,650
8	BCI Growth III	SS	Feb-90	Mar-30-90	135,500,000	15,000,000	15,000,000	13,531,273	1,468,727	12,844,521
9	BCI Growth IV	SS	Mar-95	Oct-25-95	175,253,000	25,000,000	16,844,656	1,409,280	15,435,376	2,724,161
10	Blackstone Capital Partners II	LBO	Oct-93	Nov-03-93	1,271,400,000	75,000,000	68,408,764	17,162,316	51,246,448	31,541,795
11	Blackstone Capital Partners III	LBO	Jun-97	Jun-27-97	3,750,000,000	300,000,000	43,396,461	0	43,396,461	14,566
12	Boston Ventures IIIA	SS	Apr-89	Apr-27-89	286,000,000	35,598,029	35,612,559	30,244,319	5,368,240	35,670,511
13	Boston Ventures IVA	SS	Oct-92	Nov-10-92	515,000,000	55,312,500	49,228,125	35,656,983	13,571,142	40,406,476
14	Boston Ventures V	SS	May-96	Sep-30-96	808,080,000	90,000,000	27,720,662	461,249	27,259,413	6,974,872
15	Candover 1994	LBO	Mar-94	May-18-94	490,000,000	32,900,000	22,991,969	6,370,526	16,621,443	15,072,992
16	Candover 1997	LBO	Nov-97	Dec-10-97	1,411,000,000	150,000,000	18,257,201	0	18,257,201	0
17	Charterhouse Equity Partners	LBO	Jul-89	Jul-27-89	264,900,000	27,160,000	28,160,105	13,506,150	14,653,955	37,025,723
18	Charterhouse Equity Partners II	LBO	Jun-93	Dec-17-93	291,250,000	40,000,000	40,155,780	15,570,412	24,585,368	50,337,143
19	Cornerstone Equity Investor IV	VC	Nov-96	Dec-6-96	550,000,000	40,000,000	16,800,000	0	16,800,000	0
20	Corporate Partners	SS	Apr-88	Jun-24-88	1,396,000,000	100,000,000	88,428,784	64,349,471	24,079,313	79,847,898
21	CVC European Equity Partners	LBO	Nov-95	Feb-27-96	562,000,000	40,000,000	36,661,709	2,706,501	33,955,208	5,466,838
22	CVC European Equity Partners II	LBO	Apr-98	Jun-03-98	2,500,000,000	300,000,000	57,338,284	0	57,338,284	161,137
23	Domain Partners III	VC	Jan-95	Feb-24-95	125,000,000	10,000,000	8,500,000	400,781	8,099,219	1,406,702
24	ECI 5	LBO	Nov-94	Apr-27-95	128,000,000	16,000,000	14,200,467	3,184,389	11,016,078	7,697,835
25	First Reserve Fund VI	SS	Jan-92	Jan-29-92	184,184,000	25,000,000	25,000,000	10,203,098	14,796,902	15,145,583
26	First Reserve Fund VII	SS	Jan-97	Feb-21-97	243,900,000	25,000,000	16,292,167	1,783,702	14,508,465	2,797,818
27	First Reserve Fund VIII	SS	Apr-98	Apr-16-98	800,000,000	100,000,000	7,725,454	0	7,725,454	0
28	FS Equity Partners III	LBO	Mar-93	Aug-26-93	559,800,000	60,000,000	59,170,463	18,696,492	40,473,971	23,787,101
29	FS Equity Partners IV	LBO	Oct-97	Dec-31-97	915,000,000	87,500,000	31,523,269	0	31,523,269	0
30	Golder, Thoma, Cressey III	SS	Dec-91	Dec-12-91	235,000,000	4,633,908	4,633,908	2,218,557	2,415,351	15,941,592
31	Golder, Thoma, Cressey IV	SS	Mar-93	Apr-06-93	312,000,000	35,000,000	34,037,500	12,626,416	21,411,084	31,162,317
32	Golder, Thoma, Cressey V	SS	Jul-96	Jul-26-96	521,000,000	40,000,000	32,200,000	106,404	32,093,596	791,228
33	InnoCal Fund	VC	Jan-93	Apr-1-93	75,800,000	75,000,000	58,700,000	5,277,639	53,422,361	6,957,352
34	InterWest Partners IV	VC	May-89	Jun-16-89	110,000,000	10,000,000	10,000,000	3,353,423	6,646,577	11,441,030
35	InterWest Partners V	VC	Apr-93	Jun-17-93	175,000,000	15,000,000	15,000,000	1,363,554	13,636,446	43,812,486
36	InterWest Partners VI	VC	Jun-96	Jun-27-96	175,000,000	15,000,000	10,800,000	0	10,800,000	0

STRS ALTERNATIVE INVESTMENTS										
PARTNERSHIP COMMITMENTS AND CAPITAL SUMMARIES										
DECEMBER 1998										
	Partnerships	Type	Date STRS Approved	Closing Date	Fund Size	STRS Commitment	Amount Funded	Returned Capital	Net Invested Capital	Income & Gain
37	Kelso Investment Advisors V	LBO	Jan-93	Dec-23-93	710,000,000	50,000,000	46,705,790	1,871,769	44,834,021	6,758,456
38	Kelso Investment Advisors VI	LBO	Feb-98	Mar-98	1,500,000,000	150,000,000	1,736,712	0	1,736,712	0
39	KKR 1996 Fund	LBO	Oct-96	Dec-20-96	6,012,000,000	300,000,000	128,849,979	0	128,849,979	1,273,291
40	Madison Dearborn	SS	Jun-92	Dec-18-92	550,000,000	50,000,000	48,067,446	10,449,657	37,617,789	25,149,674
41	Madison Dearborn II	SS	Apr-96	Jun-27-96	925,000,000	60,000,000	39,299,611	0	39,299,611	0
42	Marlborough Capital	SS	Mar-91	Apr-01-91	70,700,000	10,000,000	9,873,150	4,761,619	5,111,531	3,523,206
43	Mayfield VII	VC	Nov-92	Dec-28-92	165,000,000	10,000,000	10,000,000	1,959,149	8,040,851	7,448,908
44	MC Venture Partners	VC	Dec-98	Dec-17-98	250,000,000	25,000,000	0	0	0	0
45	Media/Communications II	SS	Apr-90	Dec-20-90	167,000,000	30,000,000	30,000,000	16,833,550	13,166,450	39,901,873
46	Media/Communications III	SS	Dec-96	Dec-24-96	265,000,000	30,000,000	21,781,716	0	21,781,716	0
47	Mezzanine Lending Assoc III	SS	Feb-89	Mar-08-89	500,000,000	50,000,000	35,524,875	18,933,393	16,591,482	32,742,666
48	NEA V	VC	Mar-90	May-29-90	200,000,000	25,000,000	25,000,000	11,446,441	13,553,559	54,522,765
49	NEA VI	VC	Oct-93	Dec-22-93	230,000,000	35,000,000	35,000,000	4,574,911	30,425,089	19,465,631
50	NEA VII	VC	Nov-96	Nov-19-96	265,000,000	40,000,000	32,000,000	955,778	31,044,222	736,873
51	NEA VIII	VC	Jul-98	Sep-25-98	550,000,000	50,000,000	7,500,000	0	7,500,000	0
52	OCM Opportunities Fund II	SS	Sep-97	Oct-31-97	1,500,521,000	25,000,000	15,000,822	0	15,000,822	63,014
53	Penman Fund	LBO	May-93	Oct-05-94	88,700,000	8,339,215	5,527,755	550,282	4,977,473	170,803
54	Phildrew Ventures IV	LBO	Sep-95	Nov-13-95	257,000,000	20,000,000	17,231,459	3,121,095	14,110,364	2,237,716
55	Spectrum Equity Investors III	SS	Dec-98	Dec-17-98	650,000,000	65,000,000	0	0	0	0
56	Stonington Capital Appreciation	LBO	Sep-94	Dec-15-94	992,000,000	85,000,000	60,168,440	0	60,168,440	96,280
57	Summit Subordinated Debt Fund	SS	Feb-94	Mar-14-94	335,000,000	10,000,000	9,000,000	8,702,084	297,916	2,634,583
58	Summit Subordinated Debt Fund II	SS	Jan-97	Jan-31-97	141,400,000	20,000,000	8,000,000	1,180,626	6,819,374	610,033
59	Summit Ventures III	VC	Jan-92	Jan-23-92	279,200,000	15,000,000	13,500,000	10,106,292	3,393,708	28,970,440
60	Summit Ventures IV	VC	Jul-95	Jul-31-95	610,000,000	30,000,000	27,000,000	5,466,097	21,533,903	12,418,116
61	Summit Ventures V	VC	Feb-98	Feb-13-98	1,000,000,000	45,000,000	10,125,000	0	10,125,000	758
62	Syndicated Communications II	SS	Nov-89	Nov-01-90	35,000,000	7,037,039	7,037,039	3,500,034	3,537,005	5,293,897
63	TA/Advent VIII	VC	Oct-96	Nov-4-96	800,000,000	10,000,000	3,750,000	0	3,750,000	5,229
64	Thoma Cressey VI	SS	May-98	May-19-98	450,000,000	60,000,000	4,800,000	0	4,800,000	0
65	Thomas H. Lee Equity Fund III	LBO	Oct-95	Dec-28-95	1,345,000,000	100,000,000	69,654,618	30,566,088	39,088,530	32,575,730
66	Thomas H. Lee Equity Fund IV	LBO	Jan-98	Feb-09-98	3,450,000,000	150,000,000	27,610,551	0	27,610,551	3,390
67	Warburg, Pincus Investors	SS	Jun-89	Sep-27-89	1,775,000,000	100,000,000	100,000,000	78,406,166	21,593,834	42,569,354
68	Warburg, Pincus Ventures	SS	Jul-94	Nov-04-94	2,022,000,000	110,000,000	107,250,000	8,344,380	98,905,620	7,186,183
69	WCAS Debt II	SS	Sep-90	Oct 03-90	354,000,000	30,000,000	30,000,000	6,299,709	23,700,291	21,713,785
70	WCAS Debt III	SS	May-97	May-30-97	1,279,000,000	100,000,000	20,000,000	0	20,000,000	1,016,266
71	WCAS V	LBO	Dec-88	Jan-27-89	371,363,636	30,000,000	30,000,000	14,469,077	15,530,923	81,193,305
72	WCAS VI	LBO	Apr-93	May-12-93	604,000,000	50,000,000	50,000,040	7,273,778	42,726,262	20,674,444

STRS ALTERNATIVE INVESTMENTS										
PARTNERSHIP COMMITMENTS AND CAPITAL SUMMARIES										
DECEMBER 1998										
	Partnerships	Type	Date STRS Approved	Closing Date	Fund Size	STRS Commitment	Amount Funded	Returned Capital	Net Invested Capital	Income & Gain
73	WCAS VII	LBO	Sep-95	Oct-06-95	1,425,000,000	150,000,000	127,500,000	0	127,500,000	0
74	WCAS VIII	LBO	Jun-98	Jun-30-98	3,150,000,000	300,000,000	48,000,000	0	48,000,000	0
75	Whitney 1990	SS	Nov-90	Mar-28-91	136,400,000	15,000,000	16,617,765	7,613,858	9,003,907	21,867,053
					\$55,643,511,636	\$4,471,480,691	\$2,272,896,936	\$525,095,488	\$1,747,801,448	\$983,196,091
Co-Investments										
1	Bridge Financial Info. - WCAS VII	CI	Jul-96			30,000,000	30,000,000	0	30,000,000	0
2	Hines Holding - Madison Dearborn II	CI	Nov-96			17,000,000	17,000,000	17,000,000	0	3,842,198
						47,000,000	47,000,000	17,000,000	30,000,000	3,842,198
	Types: LBO (Leveraged Buyout)	Notes: #14 Commitment to Candover 1994 is 20 million British pounds.								
	VC (Venture Capital)	#15 Commitment to Candover 1997 is 84 million British pounds								
	SS (Special Situation)	#20 Commitment to CVC European Equity Partners is in US, equivalent ECU is 30 million.								
	CI (Co-Investment)	#23 Commitment to the ECI 5 Fund is 10 million British pounds								

**Alternative Investment**

**EXECUTIVE SUMMARY OF ACTION TAKEN  
UNDER DELEGATION OF AUTHORITY  
Spectrum Equity Investors III, L.P.**

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**Action:** Commitment of \$65 million to Spectrum Equity Investors III a new limited partnership of approximately \$650 million.

**Background:** Spectrum was formed in 1993 to pursue private equity investments in middle-market growth companies in the telecommunications, information, media, entertainment, and communications segments of the economy. The management team has successfully implemented this strategy in two previous funds with upper quartile rates of return.

**Analysis:** Spectrum Equity Investors III qualifies as a new fund as identified in the Alternative Investments' policies.

The investment thesis is based on the long-term experience of the management team, its high quality deal flow, its proven investment strategy, and the successful track record of the firm.

The Spectrum Equity Investors III strategy to invest the majority of capital in middle-market growth companies provides a good fit in the STRS portfolio; there is minimal overlap with STRS' other equity expansion limited partnerships.

Spectrum's capital strategy is consistent with the targets and ranges which have been approved by the Investment Committee to invest 7% of the Alternative Investments portfolio in equity expansion limited partnerships.

**Policy compliance:** This decision complies with the portfolio's policies and procedures, which were approved on June 3, 1998 by the Investment Committee. A positive written recommendation by

the Alternative Investment's advisor and STRS' staff has been documented. This resulted after an investment analysis and due diligence was conducted in the manner as previously reviewed and approved by the Investment Committee.

**Recommendation:**

Staff recommends that STRS commit \$65 million to Spectrum Equity Investors III, L.P. that represents approximately 10% of the total capitalization of the fund. STRS' commitment is subject to the successful negotiation of partnership terms and legal review.

**By:**

\_\_\_\_\_  
Deborah Contini  
Investment Officer

Date\_\_\_\_\_

**Approved:**

\_\_\_\_\_  
Réal Desrochers  
Director of Alternative Investments

Date\_\_\_\_\_

\_\_\_\_\_  
Patrick Mitchell  
Chief Investment Officer

Date\_\_\_\_\_

**Alternative Investment**

**EXECUTIVE SUMMARY OF ACTION TAKEN  
UNDER DELEGATION OF AUTHORITY  
M/C Venture Partner IV, L.P.**

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**Action:** Commitment of \$25 million to M/C Venture Partner IV a new limited partnership of approximately \$250 million.

**Background:** M/C Venture is a spin off of another partnership, M/C Partners, which STRS is a limited partner in two of their previous funds. M/C Venture will target early stage opportunities in telecommunication and other related evolving segments of the communications industry.

**Analysis:** M/C Venture Partner IV qualifies as a new fund as identified in the Alternative Investments' policies.

The investment thesis is based on the management team's experience in the communication industry, its high quality deal flow, its proven investment strategy, and the successful track record of the team.

The M/C Venture Partner IV strategy, to invest in early stage companies which operate primarily within emerging segments of the communications services industry, provides a good fit in STRS portfolio for the venture capital market segment.

M/C Venture's capital strategy is consistent with the targets and ranges which have been approved by the Investment Committee to invest 16% of the Alternative Investments portfolio in venture capital limited partnerships.

**Policy compliance:** This decision complies with the portfolio's policies and procedures, which were approved on June 3, 1998 by the Investment Committee. A positive written recommendation by the Alternative Investment's advisor and STRS' staff has been documented. This resulted after an investment analysis and



due diligence was conducted in the manner as previously reviewed and approved by the Investment Committee.

**Recommendation:**

Staff recommends that STRS commit \$25 million to M/C Venture Partner IV, L.P. that represents approximately 10% of the total capitalization of the fund. STRS' commitment is subject to the successful negotiation of partnership terms and legal review.

**By:**

\_\_\_\_\_  
Deborah Contini  
Investment Officer

Date\_\_\_\_\_

**Approved:**

\_\_\_\_\_  
Réal Desrochers  
Director of Alternative Investments

Date\_\_\_\_\_

\_\_\_\_\_  
Patrick Mitchell  
Chief Investment Officer

Date\_\_\_\_\_

**Alternative Investment**

**EXECUTIVE SUMMARY OF ACTION TAKEN  
UNDER DELEGATION OF AUTHORITY  
Blackstone Capital Partners II  
Secondary Interest**

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**Action:** Commitment of up to \$41,555,964 to purchase a secondary interest in Blackstone Capital Partners II (BCP II).

**Background:** STRS is currently invested in two Blackstone limited partnerships. In November 1993, STRS committed \$75 million to BCP II, and in June 1997 STRS committed \$300 million to BCP III. As of June 30, 1998, these funds have net IRRs of 40.7% and 29.9%, respectively.

In accordance with the terms of the BCP II limited partnership agreement, Limited Partners have the right of first refusal to purchase secondary interests in the Fund. If the Limited Partners as a group propose to acquire more of the interest than is available for purchase, then each such Limited Partner shall have the right to propose to acquire its pro rata share of such interest.

**Analysis:** This investment qualifies as a secondary limited partnership interest as identified in the Alternative Investments policies.

The investment thesis is based on the following criteria: 1) Staff has identified Blackstone Capital Partners as a Tier 1 manager; 2) Staff is familiar with the BCP II portfolio; 3) The performance of BCP II exceeds the Venture Economics upper quartile performance benchmark; and 4) Staff has determined that the purchase price for the secondary interest is appropriate.

**Policy compliance:** This decision complies with the portfolio's policies and procedures, which were approved on June 3, 1998 by the Investment Committee. A positive written recommendation by the Alternative Investment consultant and STRS' staff has been documented. This resulted after an investment analysis and due diligence was conducted in the manner as previously reviewed and approved by the Investment Committee.

**Recommendation:**

Staff recommends that STRS commit up to \$41,555,964 to purchase a secondary interest in Blackstone Capital Partners II, L.P. STRS' commitment is subject to satisfactory legal review.

**By:**

\_\_\_\_\_  
**Trish Taniguchi**  
**Investment Officer**

**Date**\_\_\_\_\_

**Approved:**

\_\_\_\_\_  
**Réal Desrochers**  
**Director of Alternative Investments**

**Date**\_\_\_\_\_

\_\_\_\_\_  
**Patrick Mitchell**  
**Chief Investment Officer**

**Date**\_\_\_\_\_